

November 8, 2025

CJ's Weekly Market Memo

This week gave us a good reminder that markets can wobble even when the underlying fundamentals remain solid. While headlines about Warren Buffett's massive cash pile, Michael Burry's bearish bets, and Wall Street CEOs warning about pullbacks made for attention-grabbing weekend reading, the technical picture tells a more encouraging story.

The Economy and Market Fundamentals

Let's start with the good news: despite the ongoing government shutdown, now the longest on record, the economy continues to show resilience. Earnings season has been remarkably strong, with 75% of reporting companies beating EPS estimates and 74% exceeding sales forecasts. Perhaps more importantly, companies are raising guidance at a 14-to-6 margin over those lowering expectations. That's not the pattern you see in a market heading for trouble.

The political landscape remains complicated. The shutdown is creating real headaches, particularly in the DC metro area where jobless claims have surged 160% year-over-year. However, with the election behind us, there are signs that movement toward a resolution may finally be emerging. Whatever drag the shutdown has created, we should see a rebound effect once the government reopens.

Internationally, we're watching South Korea's AI-driven rally with interest, though this week's 3.7% pullback in the KOSPI serves as a reminder that even the year's best-performing markets need to digest their gains. The interplay between the dollar and equity performance, both here and abroad, continues to be a key dynamic, with the dollar's recent rally stalling at its 200-day moving average.

On the inflation front, gas prices have been a tailwind all year, up just 0.6% year-to-date compared to a typical 10.8% average increase. However, Bespoke's Consumer Pulse data shows inflation expectations ticking higher across all timeframes, which bears watching even as the Fed contemplates additional rate cuts.

Current Market Technical Condition

Here's what really matters for your positioning: all major indices successfully held their uptrend lines this week. The S&P 500 and Nasdaq both tested and bounced off their 50-day moving averages, extending their streaks of closes above that key support level to 133 trading days for the S&P. Small caps had a rougher time, the Russell 2000 broke below its summer uptrend and traded below late-2024 highs, but the large-cap indices remain in excellent technical shape.

We're just a few percentage points from all-time highs across the board. The S&P 500 closed the week up 14.3% year-to-date, the Nasdaq 100 finished November's first week down 3.25% but

remains up over 23% for the year. More significantly, Bespoke's "three-headed monster" of dollar, yields, and oil all remain in downtrends, which historically has been a favorable setup for equities.

The semiconductor index held its summer uptrend line despite a volatile week. Bespoke's AI infrastructure basket continues to show resilience, though AI implementation stocks took a harder hit, down 9% for the week and approaching oversold territory. This kind of rotation and consolidation is healthy after the massive runs we've seen.

Looking Ahead: Rest of 2025 and Early 2026

The setup for year-end is intriguing. Historically, November and December have been strong months, and returns have been even better in years when stocks were already up 10%+ through October. This year fits that pattern perfectly. Since 1945, when the S&P has gained 10% or more through October, the final two months have seen median gains of 4.4%, nearly double the typical rest-of-year performance.

Sentiment indicators are giving us mixed but actionable signals. The CNN Fear & Greed Index sits at extreme fear levels, while AAII's survey shows bulls in the mid-range and bears elevated. This disconnect between price action (near highs) and sentiment (fearful) often resolves to the upside. Investors remain skeptical of this rally, which paradoxically provides fuel for it to continue.

That said, we need to acknowledge some caution flags. Market breadth has been narrowing, there are actually more stocks down 50% from their highs than there are stocks within 1% of making new highs. The Russell 2000 shows this most dramatically, with 17.3% of components down at least 50% while only 1% are making new highs. This concentration is something we're monitoring closely.

The quantum computing story is generating excitement, but let's keep perspective. Outside of IBM, there are no profitable pure-play quantum companies, and even IBM thinks we're looking at 2030 or beyond before truly powerful quantum computers become practical. This feels like a theme to watch rather than chase at current valuations.

Sector performance has been telling. Energy, financials, and utilities showed relative strength this week, while consumer-facing stocks struggled. The labor market basket hit five-year lows. Travel, restaurants, and retail names are feeling pressure from the shutdown's impact on consumer confidence. But these are exactly the areas that should bounce back once we get resolution in Washington.

For the months ahead, I'm watching several key levels. The S&P's 133-day streak of closes above its 50-day moving average puts us in rarefied air, this is the fifth-longest such streak since 1953. When these streaks end, markets can get choppy, but historically the one-year forward returns have been solid.

The comparison with past years is instructive. Our current year's pattern correlates most highly with 1980, 1935, 2020, and several other strong years. In nine of the ten most similar years, markets continued higher into year-end, with a median gain of 4.4% from early November through December 31st.

As we look toward early 2026, keep in mind we'll likely get another Fed rate cut in December despite the recent hawkish rhetoric, the market is pricing this at 62% probability. The combination of rate cuts from an already accommodative Fed stance, strong earnings growth, and still-reasonable valuations in large caps provides a solid foundation.

The election is behind us, which removes one source of uncertainty. Corporate guidance has been surprisingly bullish even amid the shutdown chaos. And while small caps and many individual stocks are struggling, the equal-weight S&P 500 trading at a significant discount to the market-cap weighted index suggests opportunities for active management.

My base case remains constructive for both year-end and early 2026. The technical foundation is sound, earnings are exceeding even raised expectations, and sentiment isn't frothy despite being near highs. Yes, we need to see the government reopen and we'd like to see market breadth improve, but the pieces are in place for a traditionally strong seasonal period to play out.

Stay focused on quality companies with strong competitive positions and solid balance sheets. This isn't a market for speculation or chasing the latest hot theme, but it remains a market where fundamentally sound businesses are being rewarded. The path higher may be choppier than the straight-up moves we saw through October, but the direction still looks favorable.

CJ Brott

Chairman Emeritus

Capital Ideas

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